

New Europe Economics & Strategy

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Focus Notes: Bulgaria

Bulgaria: Revised Q2 GDP data leaves headline figure unchanged

- ✓ The Statistical Service of Bulgaria revised the flash estimate of Q2 GDP data from -1.5% yoy to -1.4% yoy. Although the headline figure remains broadly unchanged, the composition is significantly different from the originally published data.
- ✓ From a sectoral standpoint, agriculture expanded by 3.8% yoy (revised upwards from 1.6% yoy in the flash data). The gross value added in industry turned positive by 1.6% yoy (compared to a -0.3% yoy decline in the flash data), following a -0.9% contraction in Q1. The latter was a reflection of two opposing forces: weak construction activity (-1.6% yoy in Q2) due to still anemic conditions in the domestic real estate market but also a strong rebound in manufacturing output (2.9% yoy in Q2) which stems from increased external demand for export products.
- ✓ Services appear to be the only sector which stills has a negative performance which is in line with the weak domestic demand. However, the pace of contraction slowed down in comparison to the last quarter. Services registered a -0.3% yoy decline in Q2 (revised upwards from -1.7% yoy initially), against -1.2% yoy in Q1.
- ✓ As a result, gross value added expanded by 0.5% yoy in Q2. However, GDP declined by 1.4% from the adjustment of taxes (VAT and excises) which implies high level of tax evasion and low tax revenues collection
- ✓ On the demand side, the pace of contraction in private consumption appears to have slowed to -4% yoy (instead of accelerating to -7.6% yoy according to the flash data) from -6.8% yoy in Q1. Government spending was also particularly weak (-19.2% yoy in Q2) affected by the government's fiscal consolidation program. Furthermore, investment recorded a steep decline of -12.2% in Q2 (instead of the mild decline of -1.4% yoy in the flash data) compared to -15.8% yoy in the prior quarter and -24.9% in the full-year 2009.
- ✓ On the other hand, the ongoing improvement in the external sector remains the bright spot in Bulgaria. Exports posted an astonishing growth rate of 12.4% yoy in Q2, after rising by 7.6% in the first quarter. At the same time, imports stayed flat on yearly basis in Q2 (instead of declining

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by -1.2% yoy in the flash data) vs.-2.6% in the first quarter. Thus, the contribution of net exports to growth turned even more positive in Q2, compared to the first quarter of 2010.

- ✓ In conclusion, GDP revisions bring no change to our forecast. In line with what we suggested in our previous New Europe Economics & Strategy issues, the most recent macro data confirm our view that the worst of the domestic recession was seen in the last quarter of 2009. For the time being, the continued slump in domestic demand is outweighing partially the recovery in net exports.
- ✓ For the year 2010 as a whole, we do not anticipate domestic demand to have a positive contribution to overall GDP growth, given the former's pace of contraction in H1. Yet, we expect the contribution of domestic demand to gradually become less negative in the coming quarters. If this is combined with a positive contribution from net exports, GDP growth should be turning positive in the second half of the year, especially in Q4. Unless positive exports dynamics fade out in H2, we stick to our earlier forecast for an overall, output contraction of -0.3% yoy in 2010, which is now quite close to the market's consensus (Focus Economics Consensus in August: -0.4% yoy).

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